

Message Text

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ACTION SS-30

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P 020545Z JAN 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC PRIORITY 4374

C O N F I D E N T I A L PHNOM PENH 0019

EXDIS

FOR STATE/AID

FOR NOOTER AND STEARNS FROM ENDERS AND OLMSTED

E.O. 11652: GDS

TAGS: EAID, EFIN, CB

SUBJECT: HYPERINFLATION IN CAMBODIA

REF: (A) STATE 25190//282351Z DEC 73

(B) PHNOM PENH 14470/281030Z DEC 73

1. HIGH POLITICAL COUNCIL AND PRIME MINISTER HAVE SIGNED SECRET MINUTES OF MEETING IN WHICH IT WAS DECIDED TO DEPRECIATE RATE OF EXCHANGE BY 25 PERCENT. THIS HAS BEEN COMMUNICATED TO THE GOVERNOR OF THE NATIONAL BANK AND THE NEW EXCHANGE RATE IS TO BE MADE EFFECTIVE ON THE FIRST FOREIGN EXCHANGE MARKET TRADING DAY WHICH WILL BE TOMORROW, JANUARY 3. NEW RATE SHOULD BE ANNOUNCED AT NOON PHNOM PENH TIME.

2. ASSUMING THIS OCCURS ON SCHEDULE, NOTES WILL BE EXCHANGED ON 1974 U.S. CONTRIBUTION TO ESF FRIDAY, JANUARY 4, 0830 IN THE MORNING, PHNOM PENH TIME. VERY MUCH APPRECIATE YOUR REFTTEL(A) RESPONSE. THE IMPORTANT THING IS TO GET THE \$8.7 MILLION TRANCHE FIGURE OUT IN PUBLIC. THIS WILL HELP BORET. ACTUAL DEPOSITS UNDER THE TRANCHE WILL BE A SEPARATE OPERATION AND WILL BE SUBJECT TO AD HOC CONDITIONS WITH REGARD TO EXCHANGE RATE MANAGEMENT AND GKR CONTRIBUTION TO ESF. WE INTEND TO PRESS THE GKR TO DEPOSIT THE FULL DOLLAR VALUE OF THEIR SDR'S AS THEIR CONFIDENTIAL

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INITIAL CONTRIBUTION TO THE ESF. THIS IS APPROXIMATELY FOUR AND A QUARTER MILLION DOLLARS. WE BELIEVE THE IMF SHOULD SUPPORT THIS MOVE. WOULD PLAN OUR FIRST DEPOSIT BE MADE AT THE SAME TIME AS GKR DEPOSIT. THIS SHOULD NOT PRESENT ANY PROBLEM TO THE GKR SINCE

THEY HAVE ALREADY CONVERTED SDRS INTO LIQUID FOREIGN ASSETS.

3. WE DID NOT REPEAT NOT CONSULT IMF REPRESENTATIVE EVERS ON THE DEVALUATION PRIOR TO ACHIEVING GKR DECISION. WE DID ADVISE HIM AFTER GKR DECISION MADE AND SECRET MINUTES SIGNED. WHEN ADVISED OF DEVALUATION MEASURE, EVERS STATE THAT IT WAS A

GOOD THING HE HAD NOT BEEN CONSULTED EARLIER BECAUSE IF HE HAD BEEN, WE "WOULD HAVE HAD ONE HELL OF A FIGHT ON OUR HANDS". EVERS HAS GENERALLY ACQUIESCED IN THE MOVE PUTTING UP ONLY A MILD REAR GUARD ACTION SUGGESTING THE RATE MOVE ONLY TO 320 RATHER THAN THE 375 WHICH IS OUR INITIAL TARGET.

4. WITH REGARD TO OVERALL ECONOMIC PACKAGE, OUR THINKING ON THESE MEASURES HAD BEEN OUTLINED TO EVERS IN A SERIES OF INFORMAL MEETINGS BOTH PRIVATE AND ALSO WITH REPRESENTATIVES OF GKR SO THESE HAVE COME AS NO SURPRISE TO HIM. ON MANY OF THESE MEASURES WE ARE IN AGREEMENT, PARTICULARLY ON GKR REVENUE TARGETS. AFTER THE PACKAGE OF ECONOMIC MEASURES WAS DECIDED UPON BY NEW GOVERNMENT WE DID INFORM EVERS IN DETAIL.

5. AS OF NOW THE ROLE OF EMBASSY AND IMF REPRESENTATIVE HAVE REVERSED WITH EMBASSY AS GKR'S PRINCIPAL ECONOMIC ADVISOR AND IMF RES REP IN SUBORDINATE POSITION. THE QUESTION IS WHETHER IMF RES REP IS PREPARED TO ACCEPT SUCH SUBORDINATE ROLE ON THOSE ISSUES WHICH WE CONSIDER TO BE OF VITAL CONCERN TO EFFECTIVE PURSUIT OF OUR POLICIES.

6. SUGGEST YOU NOW CONTACT FUND MANAGEMENT AND REVIEW WHERE WE GO FROM HERE. IT WOULD BE USEFUL FOR THE MANAGEMENT TO INSTRUCT EVERS TO CONCENTRATE ON:

(A) ACHIEVING SMALL BUT FREQUENT RATE CHANGES FROM THE NEW THRESHOLD; IN ORDER TO MAINTAIN MONETARY STABILITY RATE SHOULD DEPRECIATE SOMEWHAT MORE RAPIDLY THAN RATE OF INCREASE IN MONEY SUPPLY; IT MIGHT BE POSSIBLE TO WORK OUT AN AGREED FORMULA; AND
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(B) IMPROVING GKR OVERALL TAX PERFORMANCE, REFORMING

TAX STRUCTURE, AND INSTITUTING PROMISED SUMPTUARY TAXATION.

7. MEANWHILE WE HAVE BEEN GOING AHEAD WITH THE GOVERNMENT IN FURTHER DETAILED EXAMINATION OF THE MILITARY AND CIVILIAN BUDGETS. EVERS WILL NOT REPEAT NOT BE INVITED TO PARTICIPATE, BUT WE WILL KEEP HIM INFORMED.

8. GOVERNMENT WILL BE ANNOUNCING WAGE SUPPLEMENT SHORTLY.

9. UNDERSTAND YOUR ANXITIES ON RICE. WE FIND THAT WE HAVE

ALREADY BEEN ABLE TO ACHIEVE THE OBJECTIVE OF RADICAL DROP IN
THE FREE MARKET PRICE BY THE MODERATE INCREASES IN DISTRIBUTION
OVER THE PAST MONTH SINCE WE FIRST OUTLINED OUR STRATEGY.
WE DO NOT BELIEVE THEY WILL LEAD TO OPEN ENDED ESCALATION OF
RICE DEMAND AND SUBSEQUENT SHORTAGE. THIS IS PRIMARILY BECAUSE
OF THE MINOR IMPORTANCE DOMESTIC RICE HAS IN SUPPLYING PHNOM
PENH. SEPTTEL WILL ANALYZE THE SITUATION IN DETAIL.
ENDERS

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